# Direct Account Backhauling Issues RJR Position Statement



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#### Backhaul: Definition

A Direct Buying Customer utilizing their trucks to pick up product from a bonded public warehouse or directly from the manufacturers distribution center.

#### Backhaul: Issues

- → Many Direct Accounts have expressed interest in picking
  up product themselves either at the Public Warehouse or at
  our Central Distribution Center in Winston-Salem
  (Backhauling) versus Public Warehouse delivery to them
- → Direct Account Perception is a cost savings to RJR of as much as 10¢ per carton, thus,
- ◆ Direct Accounts that could perform this function would then participate in the cost savings and both our Directs and RJR could benefit



- → Title of Ownership passes to Customer when truck leaves Public Warehouse or CDC, Exposing Direct Account to Product Liability
- ◆ Pick Up driver would be required to load and count product, sign each bill of lading "loaded without exception", and be responsible for financial consequences from product damage and/or theft
- → Backhaul is Prohibited (by law) in 18 States\*

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#### RJR Backhaul: Position (continued)

\* Must be

Contacted On

**Each Request** 

D.C.

Florida

Georgia

Indiana

Kansas

Massachusetts

Montana

New Jersey

North Carolina

Ohio

Oklahoma

**Approval** 

**Denied** 

Alabama

Kentucky

Louisiana

Missouri

North Dakota

**Texas** 

No Reply Received

Will Contact On

**Each Request** 

Mississippi

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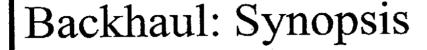
#### RJR Backhaul: Position (continued)

- ★ The cost impact to our Direct Buying Customers of insuring loss/damage coverage would be excessive.
- + Unloading, sorting, and product segregation services performed by the Public Warehouse carrier would have to be performed by the customer receiving personnel
- → Empty pallet exchange would have to be coordinated
- → First pick up by Customer would be after 5:00 PM, with strict pick-up time parameters

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#### RJR Backhaul: Position (continued)

- ♦ Revenue earned by Pick Up Customer estimated at 2.5¢ per Carton (excluding insurance costs, transportation and labor)
- → Since most Public Warehouses derive their profit from transportation revenue and not warehousing, the cost to RJR on remaining deliveries would increase



- ♦ Not all States allow Customer Pick Up which would result in cost inequities within our customer base
- + Estimated gross revenue gain for our Direct Accounts of 2.5¢ per Carton does not justify time and expense
- ◆ Insurance, transportation, labor and additional security will add costs to our Direct Accounts offsetting most, if not all, of the estimated 2.5¢ per carton
- → A singular account backhaul out of one public warehouse would reduce the critical mass increasing RJR delivery cost per case on remaining deliveries
- + Backhaul, at this time, does not have the critical mass to reduce costs to RJR \*

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## Backhaul: Next Steps

- ◆ Provide Field Managers with a clear understanding of RJR's position on Backhaul via placement of this recap in C.A.P.S.
- ★ In addition, review with KAM's and AM's during Winston-Salem based training sessions



Gross Estimated Pick-up Revenue

\$0.025 Per Carton/ Truck Load

Insurance

(0.0013)

Transportation

(0.0033)

Labor

(0.0037)

Hypothetical Net Income to Direct

\$0.0167 Per Carton/ Truck Load

Note: Still not feasible to RJR until/unless critical mass of backhaul is in effect.

### **Backhaul Assumptions**

+ Truck Load: 750 (12M) cases palletized

+ Insurance: \$60.00 Per Truck Load

+ Transportation: 60 Miles @ \$2.50 Per Mile

+ Labor: 5.5 Hours @ \$30.00 P/Hr. (1 Person)

+ Time Parameters: 2.0 Hours Load Time

2.0 Hours Unload Time

1.5 Hours Drive Time